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### **Eligibility for Child Tax Credit by Age of Child\***

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The child tax credit (CTC) is the single largest federal cash assistance program for children. The Joint Committee on Taxation (2006) estimates that the CTC will provide \$46 billion in subsidies to families with children in 2007. By comparison, the earned income tax credit (EITC) provides less than \$43 billion. Federal outlays on food stamps will total about \$35 billion in 2007 and spending on other family support programs (the largest of which is temporary assistance for needy families, TANF) will equal about \$24 billion. (Congressional Budget Office, 2007)

Enacted as part of the Taxpayer Relief Act of 1997, the CTC originally provided a \$500 tax credit for each dependent child under the age of 17. The Economic Growth and Tax Relief and Reconciliation Act of 2001 and the Jobs and Growth Tax Relief and Reconciliation Act of 2003 doubled the credit to \$1,000 and made it partially refundable.<sup>†</sup> Families with earnings over \$10,000 could receive at least a partial credit in excess of their tax liability. The refundable portion of the credit increased with earnings. Like many other federal income tax provisions, the \$10,000 refundability threshold was indexed for inflation.

In 2007, tax filers may claim a refundable credit equal to 15 percent of the excess of earnings over \$11,750, up to the \$1,000 maximum per child. Thus, a family with one qualifying child and earnings of \$18,417 could benefit from the full \$1,000 credit, even if it had no income tax liability. (Families with two or more children would need higher earnings to gain the maximum benefit from the credit.) The expanded refundability has made the CTC more valuable to many lower-income families, though many with very low incomes were still left out.

Many young children are left out because they are more likely to live in households with low earnings than are older children. The Tax Policy Center (TPC) estimates that 17.6 percent of children under age 2 were in families ineligible for the child credit in 2007 because their earnings were too low, compared with 15.4 percent of children aged 6 to 9 and 13.6 percent of children age 10 to 16.<sup>‡</sup> (Table T07-0137) The pattern is similar,

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<sup>†</sup> The original CTC was also refundable, but only for families with three or more children and only to the extent eligible families' payroll taxes exceeded their refundable earned income tax credit. (Burman, Maag, and O'Hare 2002)

<sup>‡</sup> We calculated the number of children ineligible for any credit because family earnings are too low, eligible for only a partial credit because earnings are too low, eligible for the full credit, in the phase-out range for the credit, and ineligible because family incomes are too high based on tax return information and the TPC microsimulation tax model version 1006-2. We estimated the age distribution within each credit category using the Transfer Income Model version 3 (TRIM3) based on 2002 data assuming 2005 law parameters were in effect (adjusted to 2002 income levels). The TRIM3 model estimates that somewhat fewer children are eligible for the credit than actually claim the credit according to the tax data. This may be due to data issues in the Current Population Survey, upon which TRIM3 is based, erroneous claims on tax returns, or some combination of the two factors. Since we are most interested in who actually would claim the credit on tax returns, we calibrate our estimates to match the tax totals. We are implicitly assuming that the people who claim the credit on tax returns, but appear ineligible based on TRIM3, have the same age distribution as people who appear eligible for the credit in TRIM3.

Note that TRIM3 requires users to input assumptions and/or interpretations about economic behavior and the rules governing federal programs. Therefore, the conclusions presented here are attributable only to the

although somewhat less pronounced for children in the phase-in range for the refundable credit (that is, in families with earnings over \$11,750 but not high enough to make the entire credit refundable). 17.2 percent of 0 to 1 year olds are in that category, compared with 16.9 percent of 6-9 year olds and 14.0 percent of 10-16 year olds. Overall, 34.8 percent of kids one and under were in families eligible for partial or no credit because their earnings were too low. That is substantially less than the overall fraction of such children—31.1 percent. Only 27.6 percent of older children were in families with such low earnings.

Among working families, more than 30 percent of qualifying children under age 2 are in families with earnings too low to qualify for the full credit. (Table T07-0138) Less than 29 percent of children age 2 to 5 and less than 24 percent of children age 10 to 16 are in that situation. Overall, 26.9 percent of children in working families are in families with earnings too low to qualify for the full credit.

The pattern is also apparent by broader age groupings. The TPC estimates that 29.3 percent of children age 5 and under (6.6 million) are in working families with earnings too low to qualify for the full credit in 2007, compared with 25.8 percent (11.1 million) of children age 6 to 16. (Table T07-0139)

The CTC was designed to complement to the refundable EITC, which reaches a maximum (for a family with two or more children) at the earnings level at which the CTC begins to take effect. If the CTC is considered part of a jigsaw puzzle of earnings support programs that are run through the tax system, the relatively high phase-in threshold makes some sense. But if the CTC is intended to serve as an income support program for families with children, it leaves out those with the greatest needs—families with very low incomes, a disproportionate share of families with very young children, and, as we have documented elsewhere, a disproportionate share of minority households. (Burman and Wheaton, 2006)

## References

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authors of this report. TRIM3 was developed by the Urban Institute under funding from the Office of the Assistant Secretary for Planning and Evaluation of the Department of Health and Human Services. A description of the TRIM3 model is available online at <http://www.trim3.urban.org>. A description of the TPC microsimulation tax model is available at <http://taxpolicycenter.org>.

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**Table T07-0137**  
**Distribution of Qualifying Children by Eligibility for Child Tax Credit in Millions, by Age, 2007<sup>1</sup>**

Age	No Credit (Income Too Low)		Partial Credit (Credit Phase-in)		Full Credit		Partial Credit (Credit Phase-out)		No Credit (Income Too High)		Total Qualifying Children	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
<b>0-1</b>	1.3	17.6	1.3	17.2	3.9	52.8	0.4	5.6	0.5	6.8	7.3	100.0
<b>2-5</b>	2.7	16.5	2.8	16.6	8.9	53.4	1.1	6.5	1.1	6.9	16.6	100.0
<b>6-9</b>	3.1	15.4	3.4	16.9	10.7	53.0	1.5	7.4	1.5	7.3	20.3	100.0
<b>10-16</b>	3.4	13.6	3.5	14.0	14.0	55.8	2.0	7.9	2.2	8.6	25.1	100.0
<b>All</b>	10.6	15.3	11.0	15.8	37.5	54.1	5.0	7.2	5.3	7.6	69.4	100.0

Source: Transfer Income Model (March 2003 CPS data for CY 2002 evaluated under 2005 law) and Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) The child tax credit is partially refundable. In 2007, the refundable credit phases in at a 15-percent rate on earnings in excess of \$11,750 (indexed). The credit phases out at a 5-percent rate on adjusted gross income over \$110,000 (not indexed).

**Table T07-0138**  
**Distribution of Qualifying Children in Working Families by Eligibility for Child Tax Credit (in Millions), by Age, 2007<sup>1</sup>**

Age	No Credit (Income Too Low)		Partial Credit (Credit Phase-in)		Full Credit		Partial Credit (Credit Phase-out)		No Credit (Income Too High)		Total Qualifying Children	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
<b>0-1</b>	0.8	11.9	1.3	18.4	3.9	56.4	0.4	6.0	0.5	7.3	6.9	100.0
<b>2-5</b>	1.7	11.1	2.8	17.7	8.9	56.9	1.1	7.0	1.1	7.3	15.6	100.0
<b>6-9</b>	2.0	10.3	3.4	17.9	10.7	56.2	1.5	7.9	1.5	7.8	19.1	100.0
<b>10-16</b>	2.2	9.1	3.5	14.7	14.0	58.7	2.0	8.4	2.2	9.1	23.9	100.0
<b>All</b>	6.7	10.2	11.0	16.7	37.5	57.3	5.0	7.6	5.3	8.1	65.5	100.0

Source: Transfer Income Model (March 2003 CPS data for CY 2002 evaluated under 2005 law) and Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) The child tax credit is partially refundable. In 2007, the refundable credit phases in at a 15-percent rate on earnings in excess of \$11,750 (indexed). The credit phases out at a 5-percent rate on adjusted gross income over \$110,000 (not indexed).

**Table T07-0139**  
**Distribution of Qualifying Children in Working Families**  
**by Eligibility for Child Tax Credit (in Millions), by Age, 2007<sup>1</sup>**

Age	Earnings Too Low for Full Credit		Full Credit		Earnings Too High for Full Credit	
	Number	Percent	Number	Percent	Number	Percent
<b>0-5</b>	6.6	29.3	12.8	56.8	3.1	14.0
<b>6-16</b>	11.1	25.8	24.8	57.6	7.2	16.6
<b>All</b>	17.7	27.0	37.5	57.3	10.3	15.7
<b>Addendum</b>						
<b>0-1</b>	2.1	30.3	3.9	56.4	0.9	13.3

Source: Transfer Income Model (March 2003 CPS data for CY 2002 evaluated under 2005 law) and Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) The child tax credit is partially refundable. In 2007, the refundable credit phases in at a 15-percent rate on earnings in excess of \$11,750 (indexed). The credit phases out at a 5-percent rate on adjusted gross income over \$110,000 (not indexed).